

**PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY**  
**Grant County, Washington**  
**Special Audit**  
**December 1, 1995 Through April 10, 1997**

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**Schedule Of Findings**

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1. Public Funds Were Misappropriated And Accounting Records Were Falsified And Destroyed

Our audit of the financial records of County Public Utility District No. 2 of Grant County revealed that at least \$236,925.23 in public funds was misappropriated by the deputy treasurer during the period December 1, 1995, through April 10, 1997. Accounting records were falsified and destroyed in an attempt to conceal these losses. There were no federal funds involved in this case. These funds were misappropriated as described below.

The deputy treasurer prepared fictitious documents to generate three vendor warrants. Instructions were given to accounts payable to route these warrants back to the deputy treasurer for distribution. These warrants weren't given to the intended vendors. Instead, they were replaced with warrants made payable to the deputy treasurer.

The deputy treasurer obtained improperly voided warrants from the vault. He filled these out and then used the district's optical scanner and color printer to forge the authorizing signature. These fraudulent warrants were deposited into the deputy treasurer's personal checking account.

In efforts to avoid detection, the deputy treasurer altered the district's warrant redemption computer program. The resulting reports depicted that the vendor warrants, instead of the fraudulent warrants, were redeemed by the bank. Prior to the bank reconciliation, the deputy treasurer intercepted the redeemed warrants and removed those made payable to himself.

On April 1, 1997, the warrant redemption clerk requested a copy of one of the fraudulent warrants from the bank. The deputy treasurer overheard the clerk's request. Early the next morning, he made another modification to the district's warrant redemption computer program and made restitution in the amount of \$7,148.53. He then met with the district's internal auditor and claimed he was only performing a test of the system. The deputy treasurer eventually admitted that he had misappropriated public funds and suggested that other transactions existed. An investigation was initiated on April 2, 1997, and the deputy treasurer resigned on April 10, 1997.

RCW 42.20.060 states:

Falsely auditing and paying claims. Every public officer, or person holding or discharging the duties of any public office or place of trust under the state or in any county, town or city, a part of whose duty it is

to audit, allow or pay, or take part in auditing, allowing or paying, claims or demands upon the state or such county, town or city, who shall knowingly audit, allow or pay, or, directly or indirectly consent to or in any way connive at the auditing, allowance or payment of any claim or demand against the state or such county, town or city, which is false or fraudulent or contains any charge, item or claim which is false or fraudulent, shall be guilty of a gross misdemeanor.

RCW 42.24.110 states:

Municipal corporations and political subdivisions - Approving or paying false claim - Penalties. Any person who knowingly approves or pays or causes to be approved or paid a false or untrue claim shall be guilty of a gross misdemeanor and, in addition, he shall be civilly liable on his bond to the municipal corporation or political subdivision, as the case may be, for the amount paid or for three hundred dollars whichever is the greater.

The deputy treasurer abused his position and authority as a valued and trusted district employee. While he had access to the vault, optical scanner, color printer, and computer programs in the course of his normal duties, he circumvented the district's policies and procedures to perform unauthorized acts. However, the following internal control weaknesses also allowed these losses to occur and not be detected in a timely manner:

- a. The authority to make changes to the computer programs was neither restricted to nor reviewed by the data processing department. As a result, the undocumented and unauthorized changes were not noticed.
- b. There was a lack of segregation of duties over certain disbursement transactions. The deputy treasurer performed both input and output functions. Thus, he was able to prepare fictitious documents to obtain the warrants used in this scheme. This was a common practice for other district employees.
- c. Blank and voided warrant stock was not adequately safeguarded. Since all employees in the Treasurer's Department could enter the vault, access to these documents was not sufficiently restricted. The warrant issuance log was often recorded in pencil. Voided warrants weren't properly canceled to preclude their reuse and some voided warrants were missing.
- d. The warrant redemption reconciliation process was compromised. The redeemed warrants from the bank were accessed prior to delivery to the warrant redemption clerk. They were also delivered after the clerk's normal workday.

We recommend Public Utility District No. 2 of Grant County seek recovery of the misappropriated \$229,776.70 (net of restitution already paid) and related audit/investigation costs from the deputy treasurer and their insurance bonding company.

We further recommend the Washington State Office of the Attorney General and the Grant County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260.

Bond coverage for all district employees is as follows:

Insurance Company:	Federal Insurance Company
Type of Policy:	Crime Insurance Policy
Policy Number:	8081-89-48B
Amount of Coverage:	\$500,000
Period of Coverage:	June 13, 1994, to June 13, 1997

Additional bond coverage for the deputy treasurer position is as follows:

Insurance Company:	Safeco
Type of Policy:	Faithful Performance Bond
Policy Number:	4536105
Amount of Coverage:	\$50,000
Period of Coverage:	June 8, 1995, to June 8, 1997

We also recommend the district improve internal controls to address the weaknesses outlined above.

2. District Employees Should Comply With The Code of Ethics Law For Municipal Officers

The deputy treasurer used district resources for his own personal benefit. He maintained many personal records in his office and on the district's computers. These practices violate the code of ethics law for municipal officers.

RCW 42.23.070 states in part:

Prohibited acts. (1) No municipal officer may use his or her position to secure special privileges or exemptions for himself, herself, or others .

. . .

We recommend the Washington State Office of the Attorney General and the Grant County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260. We also recommend the district emphasize this law to its employees.

Auditee's Response

*In response to recommendations represented in the special audit of Public Utility District No. 2 of Grant County (District):*

- 1) The District is taking steps to implement additional controls in the warrant redemption computer program. Authority to make changes is being revised to limit access to data processing personnel and periodic printouts to the Internal Auditor and Treasurer/Controller of program modifications.*
- 2) Controls over the segregation of duties for disbursement transactions, safeguarding blank warrant stock and security over access to redeemed warrants were instituted prior to the conclusion of the audit. Control procedures added include: a) All blank warrant stock is kept in a locked cabinet within a vault. b) All voided warrant stock is immediately defaced and a log is maintained on all voided warrant stock. c) Warrants for voucher payments are not to be given to any District personnel in Finance (including the Treasurer/Controller) without a photocopy of the warrant being*

*given by Accounts Payable to either the Deputy Treasurer/Controller or Treasurer/Controller for separate file retention. d) Redeemed warrants brought to the office by courier (previously placed in a locked bank bag by bank personnel) are to be secured until the Financial Clerk can process them.*

*3) The District is seeking full restitution of the misappropriated funds plus audit costs incurred by external and internal auditors, lost interest on funds and other related internal costs incurred by District Staff.*

*4) The breach in the Code of Ethics also violated District Policy No. 1020. The District will emphasize the importance of complying with statutory and policy requirements with all employees.*

*5) The Deputy Treasurer was placed on leave on April 4, 1997 pending completion of the investigation. His attorney was notified on the morning of April 10, 1997 that a predetermination hearing was being scheduled for April 11, 1997. On the afternoon of April 10, 1997 his attorney delivered a written resignation effective immediately.*

#### Auditor's Concluding Remarks

We appreciate the district's prompt and thorough response. It appears that the concerns noted in our findings are being addressed. We will review the implemented internal controls during our upcoming audit.

We also wish to thank district officials and personnel for their assistance and cooperation throughout the special audit.